REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

Section 32 (B) (6) (b), NIRC of 1997, as amended.
BIR Ruling No. 199-2011; BIR Ruling No. 084-2010; BIR Ruling No. 131-2010; BIR Ruling No. 021-2010
#099-2016 4-1-2016

DIVINA LAW
8th Floor, Pacific Star Building,
Sen. Gil Puyat Avenue corner
Makati Avenue, Makati City

Attention: NILO T. DIVINA
SHERRY LOU R. BERNABE
Attorneys-at-Law

Gentlemen:

This refers to your letter dated September 10, 2015, requesting tax exemption of the separation pay to be received by the employees of **MegaLink Inc.** due to redundancy pursuant to Section 32(B)(6)(b) of the Tax Code of 1997, as amended.

It is represented that **MegaLink** with BIR Tax Identification No. , is a domestic corporation duly organized, registered and existing under and by virtue of the laws of the Republic of the Philippines with Securities and Exchange Commission (SEC) Company Registration No. and with principal office address at 4th Floor, OneE-Com Center building, Palm Cost Avenue, Mall of Asia Complex, Pasay City; that it is engaged in the business of owning, providing, installing, operating and managing enhancements of services to banks, non-bank financial institutions, corporations, associations, and/or switch networks; that recently, the Bangko Sentral ng Pilipinas (BSP) has ordered the functional consolidation of the country's largest Automated Teller Machine (ATM) Networks, namely, MegaLink and BancNet with the end of establishing a national retail-payment system that will achieve interoperability, efficiency, security and inclusiveness in the way financial transactions

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are settled; that pursuant to the said directive of the BSP, sometime in January, 2015, MegaLink and BancNet executed a Memorandum of Agreement to effectively integrate the functions and services of both networks; that it was likewise agreed that BancNet shall solely take charge of all ATM services and operations in the country; that, as a result thereof, all member banks and participants of MegaLink are required to migrate and/or transfer to BancNet, thereby effectively rendering MegaLink with no operation; that as a consequence, MegaLink is constrained to redundate all its employees effective 31 December 2015, namely:

NO.	EMPLOYEE	ADDRESS	POSITION
1	Acabado, Luz T.	B44, L2, Phase 3 ACM Woodstock Homes, Alapan, Imus, Cavite	Executive Assistant
2	Aligan, Freeman C.	8th Floor, Unit 1, Glenhaven Tower 1, California Garden Square, Libertad corner Calbayog Streets, Brgy. Highway Hills, Mandaluyong City	Project Manager
3	Ang, Jimmy S.	143 Brentwood Heights, Jerusalem Extension, Multinational Village, Parañaque City	Head-Relationship & Risk Management Department
4	Aotriz, Jarette B.	6226 San Benissa Garden Villas, Brgy. Kaligayahan, Fairview, Quezon City	Relationship Officer
5	Aranas, Andel Vincent T.	1365-A Lardizabal St., Sampaloc, Manila	Data Center OIC
6	Babasa, Ma. Antoniette G.	B13, L11, Garden Drive St., Phase 6, ACM Woodstock Homes, Alapan 1-A, Imus, Cavite	Operations Support Specialist
7	Balicat, Ellaine U.	27 Yakal Street, Malibay, Pasay City	Data Center Specialist
8	Bautista, Dean Mark C.	27 E. Silicon Road, Pilar Village, Las Piñas City	Data Center Specialist
9	Brusola, Ma. Yzabelle T.	359 3rd Street, Pildera II, NAIA, Pasay City	Data Center Specialist
10	Castillo, Benjamin P.	38 Winchester Street, Hillsborough Subdivision, Brgy. Cupang, Alabang, Muntinlupa City	President & CEO
11	Co, Melvin P.	318-A P. Guevarra St., San Juan City	Applications Support Analyst

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12	Dela Cruz, Garry U.	B3, L17, Purplewreath Street, Greenwood Heights, Brgy. Paliparan I, Dasmariñas, Cavite	Senior Manager, Systems & Network Support
13	Delos Santos, Adolfo Jr. V.	140 San Juan, Noveleta, Cavite	Systems Administrator
14	Esmajer, Edmar A.	Room # AG17, 1933 Rizal Avenue, Sta. Cruz, Manila	Applications Support Manager
15	Filio, Maria Cynthia C.	112 Manzanilla Street, San Jose Village 2, Biñan, Laguna	Quality Assurance Officer
16	Guiriba, Cinderella L.	1801 B4 Interio 60, Brgy. Sta. Maria, Pedro Gil Street, Paco, Manila	Data Center Specialist
17	Laureta, Leander S.	109 18th Ave., Cubao, Quezon City	Head-Product Management Department
18	Mabiasan, Benneth G.	29C Reagan St., Phase 4, Parkwood Executive Greens, F. Legaspi St., MAybunga, Pasig City	Finance & Accounting Manager
19	Maravilla, Jose III G.	1107A Almanza, Metropolis Condominium, Las Piñas City	Head-Systems Infrastructure and Applications Support Department
20	Molines, Christopher L.	Frame & Cover Corp., Manila East Road, Brgy. San Juan, Taytay, Rizal	Data Center Specialist
21	Montuya, Yvette D.	41 E. Cojuangco St., BF Resort Village, Las Piñas City	Systems Analyst/Programmer
22	Quimson, Michael M.	2 Adam St., Don Antonio Royale Estate, Commonwealth Avenue, Quezon City	Head-Information Technology and Operations Group
23	Ramos, Bernadette A.	Marigold 218, Cedar Crest, Acacia Estates, Taguig City 1637	Head-Planning and Products Group
24	Ridad, Ristian D.	2873-C Pilar Street, Tondo, Manila	Data Center Specialist
25	Rodriguez, Joseph V.	838 A. Decastro St., Malinta, Valenzuela City	Senior Network Support Administrator
26	Rosales, Erickson P.	1446 Sto. Sepulcro St., Paco, Manila	Head-Product Development and Implementation Department
27	Sabando, Leny B.	1811 San Pedro St., Nakpil, Malate, Manila	Data Center Specialist

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28	Salapate. Larcy 0.	5247B Van Buren St., Pio Del Pilar, Makati City	Administrative Manager
29	Simpliciano, Julie Ann E.	1860 Antipolo St.. Sta. Cruz, Manila	Operations Support Specialist
30	Sore. Alvin 0.	171 Brgy. Real I. Bacoor, Cavite	Project Manager
31	Sunga, Eric M.	L2, B16. P3 Verona, Citta Italia, Molino 3. Bacoor, Cavite	Head-Data Center and Operations Support Department
32	Suril, Mhyril M.	Unit ID. Dela Cruz Compound #436 M. Leyva St., Old Zaniga, Mandaluyong City	Accountant
33	Tabarangao, Michelle C.	B26. L3. Phase 3A Jupiter St., Palmera Northwinds City, San Lose Del Monte, Bulacan	Accounting Specialist
34	Tantan, Jennifer M.	43 Narra corner Guijo Streets, Manuela 4-D. Pamplona, Las Pinas City	Head-Relationship Management and Strategic Resources Group
35	Tecson. Lorna Z.	42-D Sao Paolo Street. Better Living Subd., Don Bosco, Paranaque City	Marketing Manager
36	Tera, Cecille M.	Road 10, No. 14 GSIS Hills Subd., Novaliches, Quezon City	Head-People Management Department
37	Umali, Joseph Raymond B.	168-B Aurora Blvd.. Brgy. Ermitano. San Juan City	Senior Applications Support Analyst

that **MegaLink** has duly filed with the Department of Labor and Employment (DOLE) the Notices of Termination due to Redundancy of the aforementioned employees and that said Notices of Termination were served to the said employees informing them of the effective date of separation.

In reply, please be informed that pursuant to Section 32(B)(6)(b) of the Tax Code of 1997, as amended, any amount received by an official or employee or by his heirs from the employer as a consequence of separation of such official or employee from the service of the employer due to death, sickness or other physical disability or for any cause beyond the control of the said official or employee shall not be included in the gross income and shall be exempt from taxation under Title II of the same Code. *(BIR Riding No. 084-10 dated October 6, 2010)*

The above-mentioned law requires the presence of two (2) conditions in order that the employee benefits may be granted tax exemption, namely: (1) the employee is separated from the service of the employer due to death, sickness or other physical disability or for any cause beyond the control of the said official or employee, and (2)

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that the employer pays benefits to the official or employee or his heirs as a consequence of such separation. *(BIR Ruling No. 131-10 dated December 1, 2010)*

Accordingly, the separation pay to be received by the employees deemed as occupying redundant positions as a result of their separation from the service are exempt from income tax and consequently from the withholding tax prescribed under Section 79, Chapter XIII, Title II of the National Internal Revenue Code (NIRC) of 1997, as amended, as implemented by Revenue Regulations (RR) No. 2-98, as amended. *(BIR Ruling No. 021-10 dated July30, 2010)*

Moreover, pursuant to Section 2.78.1 (A)(7) of RR 2-98, as amended, the terminal pay, i.e., commutation and payment of monetized unused vacation leave credits not exceeding ten (10) days during the year are not subject to income tax and consequently to the withholding tax. Conversely, the cash equivalent of vacation leave credits exceeding Ten (10) days is subject to tax. However, this same principle cannot apply to sick leave credits since an employee must actually go on a sick leave to be able to avail of said leave credits. *(BIR Ruling No. 199-2011 dated June 29, 2011)*

It is, however, understood that this exemption does not include the payment of the separated employees' salaries and the payment of the 13th month pay and other benefits in excess of the Php82,000 threshold as provided for under R.A. No. 10653 and implemented by Revenue Regulations No. 3-2015.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be disclosed that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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MEGALINK (Redundancy)